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- ✧ March 5 – FIAR Subcommittee Meets
- ✧ March 7 – FIAR ODO Subcommittee Meets
- ✧ March 25 – FIAR Committee Meets

### Connect

- ✧ Join the FIAR Group on milBook at the CAC-enabled site <https://www.milSuite.mil/book/groups/fiar>
- ✧ Visit the FIAR Directorate's website for links to FIAR Guidance and other tools, including past issues of Defense Audit Readiness News
- ✧ Become a FIAR Planning Tool user by emailing [FIARSupport@osd.mil](mailto:FIARSupport@osd.mil)

*I was pleased to hear the new Secretary of Defense, Chuck Hagel, affirm his commitment to achieving audit readiness during his January confirmation hearing. Agreeing that audit readiness is an essential priority, Hagel made it clear that he will continue "to ensure we make that deadline of 2017 on the audits."*

*What we will accomplish is laid out in the FIAR Plan. But how we accomplish our goals—what kind of leadership we have, what kind of culture we foster, and how we hold people accountable—is tantamount to our goals and milestones. In an exchange with Senator Angus King about what kind of manager he would be, Secretary Hagel remarked, "I think a fundamental, to me, and I think in answering your question, is accountability. We've had some discussions today about audits. All institutions must be accountable. Elected officials are accountable. We're all accountable. And the emphasis on accountability I don't think can ever be overstated." He cited the need for flexibility, resources, direction, and expectations adding, "surely it is the key to something as large as the Department of Defense."*

*Change always comes with new leadership, but our goals, our priorities, and our commitment to creating a culture of accountability will not change. This also applies to our own team as we wish Joe Quinn the very best as he pursues new opportunities. Joe has been an integral part of our team for the last 6 years and had made a valuable contribution. I thank him for everything he has done, and thank each of you for all you do.*

*Mark Easton, Deputy Chief Financial Officer*

### ✧ **Simply Put: Substantive Test**

Here's a common financial management term put in words everyone can understand:

Substantive Test: Audit activities to determine the correctness of reported balances.

## ❖ Lessons Learned: The U.S. Coast Guard

For much of its history, the Coast Guard constituted a very small part of the very large Department of Transportation. Now, as part of the Department of Homeland Security, the opposite is true. The Coast Guard comprises 24 percent of Homeland Security assets and 54 percent of liabilities. This change in materiality also affected their unqualified audit status, and the Coast Guard has had disclaimers since joining Homeland in 2003. That's something Director of Financial Operations and Comptroller Margo Sheridan and her team have corrected. Sheridan recently briefed the FIAR Subcommittee on lessons learned.



Margo Sheridan, Director of Financial Operations and Comptroller, U. S. Coast Guard

1. Operations don't stop for an audit. Work the audit into your annual plans and into the plans of others.
2. You're no different. We all have the same requirements. Focusing on your uniqueness will only get in your way and slow you down.
3. This is a marathon not a sprint. Make decisions that will sustain audit readiness over the long run. Don't be tempted by short-term fixes.
4. Each year the auditors "up" the game. You've got to sustain the improvements you've made, and keep looking ahead to what's next.
5. Look outside your building for people and ideas. Personnel turnover is not a bad thing. New people bring new energy and new ideas. You'll need both.
6. Don't waste the auditors' time or your credibility. If an area isn't ready for audit, tell the auditors. Not only will that save you both time, but it will demonstrate your commitment to sustainable improvements.
7. Focus on Internal Controls. Our Internal Control team tests the design and effectiveness of our internal controls before we go to audit. The auditors use our internal control test work, and this saves time and money.

In 2011, the Coast Guard conducted its first real audit. According to Sheridan, that first real audit was a "shock to the system" and resulted in a qualified limited scope opinion. In 2012, they conducted a full-scope audit and also received a qualified opinion. Recently, they reopened the 2012 audit and hope to get a retroactive clean opinion.

Sheridan credits the Coast Guard's success to a committed senior leadership and to a financial management workforce who has been challenged to build their credentials. "That's how you sustain what you're doing—leadership at the top and a workforce with the right expertise. You can't rely solely on contractors to keep getting the job done," she added. Entry-level controls and a focus on the big stuff first are also part of the Coast Guard success story. For more information on the Coast Guard's audit readiness efforts, contact Commander Erich Klein at [Erich.F.Klein@uscg.mil](mailto:Erich.F.Klein@uscg.mil).

## ✧ FIAR Director Joe Quinn on Updated FIAR Guidance

FIAR Director Joe Quinn sat down with the editors to discuss new changes to the FIAR Guidance.

Q: How long has the FIAR Guidance been in place and what does it do?

A: We first issued the Guidance in May 2010. The FIAR effort had already been underway for about 5 years, so from the beginning, the Guidance was a way for us to standardize the Department’s approach to audit readiness and institutionalize best practices.

Think of the Guidance as a user’s manual. It defines our goals, strategy, and methodology. It details the roles and responsibilities of every stakeholder—reporting entities, service providers, the Comptroller, DCMO, even the FIAR Directorate. And then finally, it lays out a process to follow. Of course within those broad categories there’s a lot of detail, but we really tried to organize in a way that’s user friendly, and there are lots of tables and figures to help. If you go to our website, we’ve also posted tools, templates, and examples of work products.

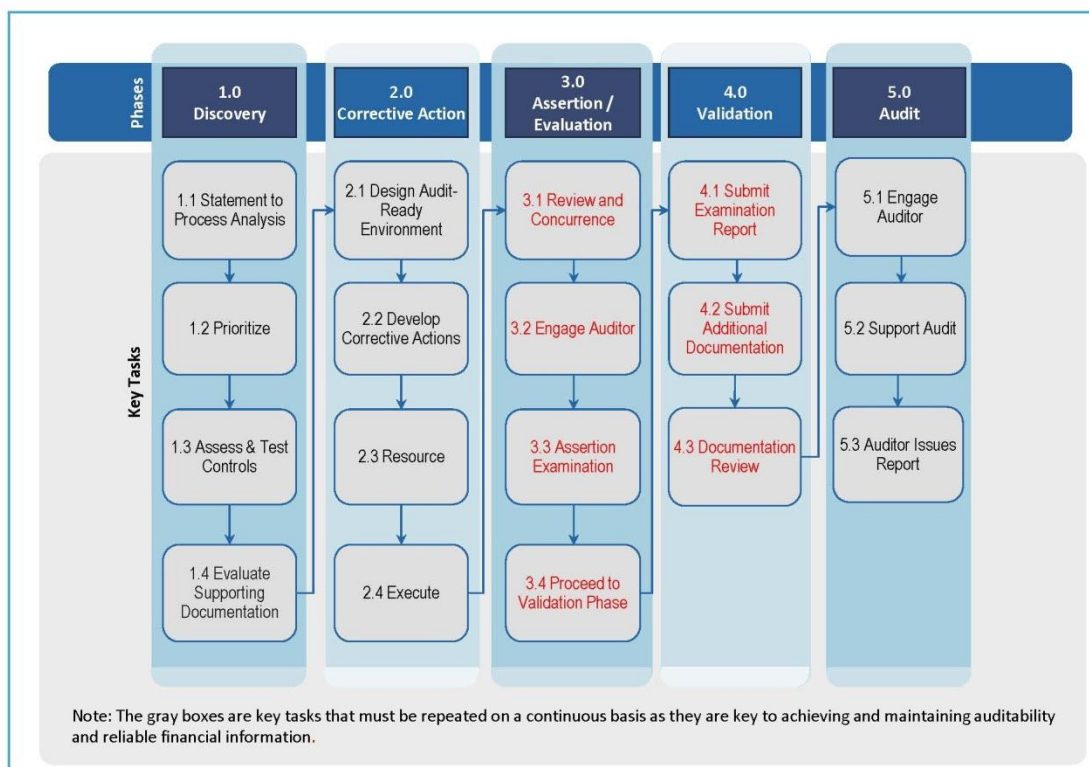
Q: Why does it need updating?

A: Keep in mind, the overall approach has not changed. But as our audit readiness effort matures, and more Components are working farther into the process, and we have identified ways to make our efforts more efficient and effective. It’s always been our plan to update the Guidance about once a year. We expected new challenges to arise and better ways of doing things to evolve. As I said, the Guidance is a way to institutionalize best practices, and our list of lessons learned and best practices keeps growing. Our first update was in December 2011. This is our second update.

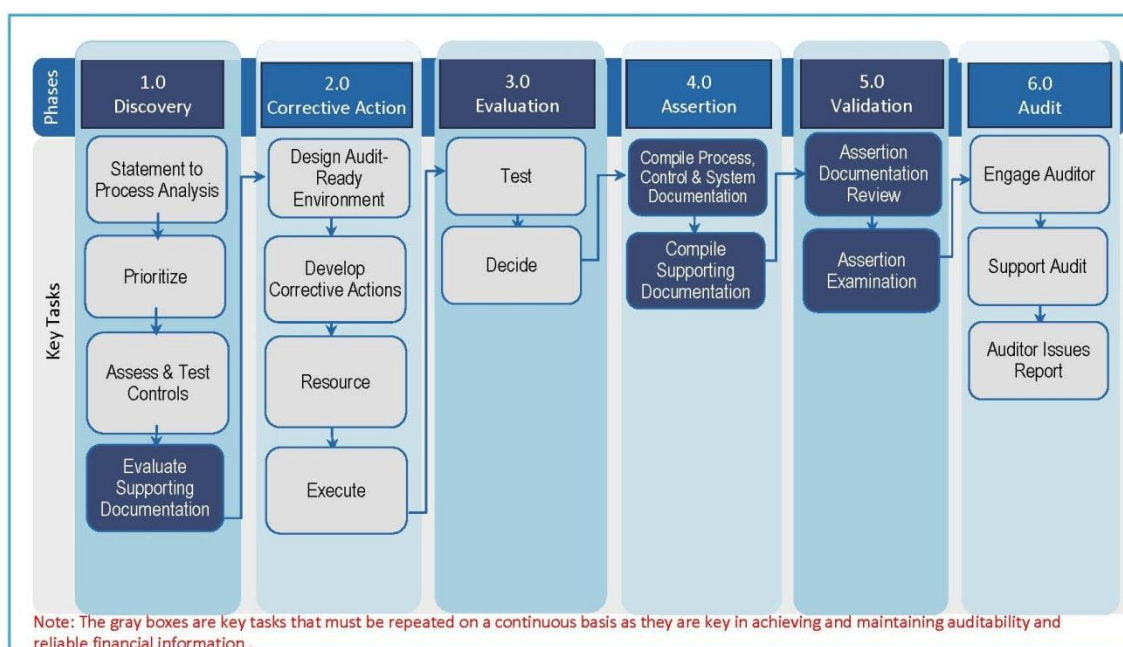
Q: What are some of the major updates?

A: We’ve combined the Evaluation and Assertion phases so that feedback from an auditor comes earlier in the process. In addition, Components will move forward to examinations upon completion of corrective actions even if the FIAR Directorate feels there are untested assertions or objectives. This will give the Components real-time feedback after their corrective actions resulting from initial discovery are complete. What we’ve seen is that when an IPA is brought in early, issues can be addressed faster. This not only saves a lot of time but it minimizes the risk that issues get repeated across other processes. In other words, Components will get feedback on weaknesses and how to correct them prior to the actual audit. Additionally, we are requiring Components to continually submit interim documentation to the FIAR office so that we can give ongoing feedback. If you compare the methodology from December 2011 to the update we’re doing today, you will see that the tasks haven’t changed much, we’ve just condensed and accelerated the phases. *(See charts on Page 4.)* Finally, under the revised Guidance, in the first year an entity undergoes an audit, schedules containing only current year appropriations and activities will be audited. Subsequent audits will look at both the current year and the prior year.

# FIAR Methodology Phases and Key Tasks As Revised in 2013:



# FIAR Methodology Phases and Key Tasks As In 2011:



Q: Are there any new requirements?

A: The FIPs have always been a useful project management tool for the Components, but the FIPs don't explain how a Component's approach to each assessable unit combines into an overall strategy. With the new Guidance, we are emphasizing that all Components must develop a 'Strategy Prioritization Document' that documents their overall approach to audit and prioritizes activities in order to succeed.

Q: Where do people go to get a copy of the new guidance?

A: The Guidance has been posted to the FIAR website at [http://comptroller.defense.gov/fiar/documents/FIAR\\_Guidance.pdf](http://comptroller.defense.gov/fiar/documents/FIAR_Guidance.pdf). I strongly encourage people to use the online version of the Guidance, rather than printing it out. If you're using it online, all of those tools and templates that I mentioned earlier are hyperlinked within the document, and the document is bookmarked to make it easy to navigate.

## ❖ Snapshot

Each Military Department has committed to interim milestones for achieving audit readiness for each major element or business process for the statement of budgetary resources, such as civilian pay or contracts, and for addressing the existence and completeness of each major category of assets, such as military equipment or real property. The chart below gives a snapshot of the interim milestones on which the Services have successfully asserted audit readiness and how many remain.

Military Department	Completed As Of 1/31/2012	Completed As Of 1/31/2013	Completed As Of 2/28/2013	Future	Total
Statement of Budgetary Resources					
Army	2	3	3	1	4
Navy	2	4	5	7	12
Air Force	4	6	7	8	15
Mission Critical Asset Existence and Completeness					
Army	0	1	2	7	9
Navy	1	4	4	11	15
Air Force	3	5	5	8	13

Completed: milestones completed and approved by OUSD(C) (i.e., not returned for additional work).

Future: milestones to be completed in the future.

Total: total milestones to achieve auditability.

✧ **By the Numbers: The U.S. Coast Guard**

- 41,000 Active Duty
- 7,800 Reservists
- 8,000 Civilian Employees
- 4,500 Contract Employees
- 33,000 Volunteer Auxiliaries
- 1,200 Physical Locations
- 700 Aircraft
- 1,548 Boats
- 509 Cutters

✧ **May 2013 FIAR Plan Status Report In the Works**

The FIAR Directorate issued the data call for the May 2013 FIAR Plan Status Report. The semi-annual report to Congress is due May 15. As with past reports, the May Report will detail the audit readiness progress of the Military Departments, Other Defense Organizations, and Service Providers, and will address Enterprise Resource Planning Systems, risk management, and metrics.

“Although the sections and layout of the Report haven’t changed, we are focusing the most attention on the charts and milestone data and putting less emphasis on the narrative introductions to each section,” said Steve Tabone, the lead support for the report. “Our hope is that by cutting back on some of the narrative in the May report, the emphasis will clearly be on the milestones and significant accomplishments.”

Detailed instructions were sent out February 15. Input from the ODOs and Intelligence Agencies was due February 27 and March 1, respectively. Other major due dates are:

- Service Provider Input Due March 6
- Military Department Input and Draft CMO Messages Due March 13
- Formal Coordination April 3 – 17
- Final Report to USD(C)/CFO May 3
- Due to Congress May 15

Published by the Financial Improvement and Audit Readiness Directorate, Office of the DCFO, OUSD(C), U.S. Department of Defense. To submit a comment or an article, or have your name added to or removed from the mailing list, please contact [AuditReadiness@osd.mil](mailto:AuditReadiness@osd.mil).